

Senator Charles Poochigian



CAPITOL UPDATE

FEBRUARY 11, 2005

Poochigian Introduces Workers' Compensation Legislation for 2005-06 Session

Bill Package Tackles Trio of Issues Not Addressed in Previous Reforms

"Last year's workers' compensation overhaul reformed many aspects of the system, and has begun to help bring California's standards of care and costs in line with the rest of the nation. However, there is still more work to be done to improve the efficiency of our system, expand opportunities for medium-sized businesses to join together and self-insure to better control costs, and increase California's workers' compensation fraud fighting effectiveness."

- Senator Chuck Poochigian

In an effort to tackle several issues not addressed in last year's workers' compensation overhaul (Senate Bill 899 - Poochigian), or other recent reform efforts, Senator Poochigian has introduced three bills this session relating to workers' compensation:

Alternative Dispute Resolution – SB 177: This bill will allow the State of California to use Alternative Dispute Resolution (ADR) in managing the state's workers' compensation claims. Currently, this option is available to self-insured employers and insured employers that have unionized workforces.

Group Self-Insurance – SB 178: This bill will allow more medium-size employers the opportunity to join group self-insurance plans. It is believed that group self-insurance offers employers more control over their workers' compensation claims and financial savings over traditional insurance plans. The measure also strengthens requirements that these new group self-insurance pools, once established, remain financially sound.

Workers' Compensation Fraud – SB 179: This bill will improve the workers' compensation fraud enforcement efforts at the local level by allowing the state to provide three-year grants instead of one. In addition, this proposal gives the Fraud Assessment Commission more authority over the system by providing it with independent staff.

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Workers' Compensation Costs Continue to Compound State Budget Problems

"The cost of paying California's state workers' compensation claims has risen dramatically in recent years, and is increasingly consuming a larger portion of our state budget. While reforms passed by the Legislature should help to lower costs as a whole, all departments and agencies must do their part to prevent workers' compensation from eating a disproportionate share of their payroll."

- Senator Chuck Poochigian

State Employees' Workers' Compensation Costs Increasing

Every employer in the state is required to maintain workers' compensation coverage either in the form of traditional insurance or as a self-insured employer. The State of California, however, is legally uninsured under the law. As such, California pays for medical and indemnity costs as they arise. The State Compensation Insurance Fund (SCIF) administers claims for the State of California. In 2001-02, California government spent over \$429 million for workers' compensation claims of state employees according to the Department of Personnel Administration. In 2003-04, the State of California paid \$509 million for workers' compensation claims. This represented a 19% increase.

In light of these double-digit increases, and skyrocketing workers' compensation costs for employers across the spectrum, California's reform effort began. Legislative reform started with the passage of Senate Bill 228 (Alarcon) which was signed into law by then-Governor Gray Davis in October of 2003 and took effect immediately. SB 228 established the state's medical guidelines as the presumptive standard for all injuries, and updated and expanded the state's medical fee schedule. While this was a start, Senator Poochigian led the push for broader reforms involving the costly indemnity system, though there was substantial resistance from special interests.

The reform movement picked up steam following the election of Governor Arnold Schwarzenegger and culminated in the passage of a comprehensive workers' compensation overhaul, Senate Bill 899 (Poochigian), in April 2004. That legislation was meant to make the system fairer to injured workers while creating a more objective, medical evidence-based system that is less litigious. SB 899 allowed for the creation of medical provider networks and required substantial modifications to the permanent disability system. While some reforms went into effect immediately, most of the biggest pieces of the reform such as medical provider networks and the new permanent disability schedule were not effective until January 1, 2005. Thus, California's workers' compensation costs in fiscal 2003-04 were chiefly affected by the reforms enacted by SB 228.

State Department	2001-02 Costs (millions)	2003-04 Costs (millions)	Increase (millions)	Percentage Increase
Corrections	\$148.6	\$170.7	\$22.1	15.0%
Highway Patrol	\$56.1	\$67.8	\$11.7	20.8%
Transportation	\$30.0	\$37.2	\$7.2	24.0%
Developmental Services	\$24.1	\$30.6	\$6.5	26.9%
Mental Health	\$22.1	\$27.2	\$5.1	23.0%
California Youth Authority	\$21.0	\$23.0	\$2.0	9.5%
Employment Development	\$16.8	\$18.8	\$2.0	11.9%

Source: Department of Personnel Administration

The Governor's budget plan released in January 2005 predicts the state government's workers' comp costs will jump to \$632.9 million in the current fiscal year and then to \$685.9 million in the year that starts July 1. According to SCIF, these estimates reflect that the state is experiencing a "bubble" resulting from the payment of claims filed under the old system that predated the reform legislation.

Workers' Comp Consuming Growing Percentage of Department Budgets

The Department of Corrections has the highest workers' compensation costs of all state agencies and represents 32.4% of the total state costs. However, the Department of Corrections' costs are only slightly above average as a percent of payroll. The \$170 million cost represents 5.9% of the agency payroll. The state average is 4.65% of payroll. Agencies with the highest percentage of payroll numbers include the Department of Fair Employment and Housing (12.8%), the Highway Patrol (9.97%), and the California Youth Authority (8.71%). Inmate claims cost the state \$8.3 million in 2003-04 and come in at 82.84% of payroll.

State Department	Total Cost Paid in 2003-04 (millions)	Cost as a Percent of Payroll	Percent of Grand Total
Inmates	\$8.4	82.84%	1.60%
Fair Employment & Housing	\$1.5	12.87%	0.30%
Highway Patrol	\$67.8	9.97%	12.89%
California Youth Authority	\$23.0	8.71%	4.38%
Conservation Corps	\$2.9	7.47%	0.57%
Developmental Services	\$30.6	7.38%	5.83%
Corrections	\$170.7	5.9%	32.4%
State	\$525	4.65%	100%

Source: Department of Personnel Administration

The tens of millions of dollars spent by state agencies to pay for workers' compensation should be reduced when reforms are fully implemented. However, individual agencies with excess payroll impacts must determine why their costs represent such a high percentage of payroll and if further reforms are necessary.

"California's state government spends millions of dollars in workers' compensation costs that could be going toward providing necessary services. Those are dollars that are not going to classrooms, not being spent on roads or infrastructure, or being used to protect California families. We must continue to work to increase the effectiveness of state government and ensure that taxpayer dollars going to pay for workers' compensation are being properly spent."

- Senator Chuck Poochigian

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Senator Poochigian's website can be found by visiting: <http://www.sen.ca.gov/Poochigian>.

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